

**REPORT OF THE AUDIT OF THE
KNOTT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Randy Thompson, Knott County Judge/Executive

Members of the Knott County Fiscal Court

The enclosed report prepared by Ray, Foley, Hensley & Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Knott County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements.

We engaged Ray, Foley, Hensley & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ray, Foley, Hensley & Company, PLLC evaluated Knott County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
KNOTT COUNTY FISCAL COURT

June 30, 2010

Ray, Foley, Hensley & Company, PLLC has completed the audit of the Knott County Fiscal Court for fiscal year ended June 30, 2010.

We have issued an unqualified opinion, based on our audit, on the governmental activities, each major fund, and aggregate remaining fund information of the financial statements of Knott County, Kentucky.

In accordance with OMB Circular 133, we have also issued an unqualified opinion on the compliance requirements that are applicable to Knott County Fiscal Court's major federal program: FEMA Public Assistance Grants (CFDA # 97.036) for the year ended June 30, 2010.

Financial Condition:

The fiscal court had net assets of \$6,100,125 as of June 30, 2010. The Fiscal Court had unrestricted net assets of \$367,866 in its governmental funds as of June 30, 2010. The Fiscal Court had total debt principal as of June 30, 2010 of \$14,358,274 with \$789,619 due within the next year.

Report Comments:

2010-1 The Fiscal Court Failed To Comply With State Laws And Regulations
2010-2 Knott County Fiscal Court Did Not Follow Competitive Bidding Requirements
2010-3 Knott County Fiscal Court Lack Controls Over Personnel Documentation
2010-4 The County Did Not Maintain Proper Documentation Totaling \$9,000 For An Independent Contractor
2010-5 Fiscal Court Paid Late Fees On Credit Card Payments

Deposits:

The Fiscal Court deposits were exposed to custodial risk as follows:

- Uncollateralized and Uninsured - \$149,345 at December 31, 2009 and \$159,063 at May 10, 2010.

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

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Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

Stephen R. Allen, CPA/PFS
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J. Carroll Luby, CPA

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Randy Thompson, Knott County Judge/Executive

Members of the Knott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Knott County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Knott County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Knott County, Kentucky prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Knott County, Kentucky as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has presented the basic financial statements in accordance with Governmental Standards Board Statements 33, 34 and 37 as they relate to the modified cash basis of accounting as described in Note 1.

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To the People of Kentucky
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Jonathan Miller, Secretary
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Honorable Randy Thompson, Knott County Judge/Executive
Members of the Knott County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Knott County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 21, 2011 on our consideration of Knott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

2010-1 The Fiscal Court Failed To Comply With State Laws And Regulations
2010-2 Knott County Fiscal Court Did Not Follow Competitive Bidding Requirements
2010-3 Knott County Fiscal Court Lack Controls Over Personnel Documentation
2010-4 The County Did Not Maintain Proper Documentation Totaling \$9,000 For An Independent Contractor
2010-5 Fiscal Court Paid Late Fees On Credit Card Payments

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
February 21, 2011

KNOTT COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Randy Thompson	County Judge/Executive
Wade Noble	Magistrate
John Short	Magistrate
Kirby Hall	Magistrate
Haskel Ritchie	Magistrate

Other Elected Officials:

Tim Bates	County Attorney
Eldon Hicks	Jailer
Kenneth Gayheart	County Clerk
Ray Bolen	Sheriff
Edward Slone	Property Valuation Administrator
William J. Blair	Coroner

Appointed Personnel:

Phillip Champion	Deputy County Judge/Executive
Byron Jacobs	County Treasurer
Darrell Madden, CPA, PSC	Finance Officer
Les Miller	Road Foreman

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KNOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

KNOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,767,395
Total Current Assets	<u>1,767,395</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Construction in Process	44,500
Land and Land Improvements	1,054,505
Buildings and Improvements	15,014,980
Vehicles and Equipment	462,197
Infrastructure	<u>2,904,441</u>
Total Noncurrent Assets	<u>19,480,623</u>
Total Assets	<u><u>21,248,018</u></u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	752,881
Financing Obligations Payable	<u>36,738</u>
Total Current Liabilities	<u>789,619</u>
Noncurrent Liabilities:	
Bonds Payable	14,244,350
Financing Obligations Payable	<u>113,924</u>
Total Noncurrent Liabilities	<u>14,358,274</u>
Total Liabilities	<u><u>15,147,893</u></u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	4,332,730
Restricted For:	
Grants / Special Projects	727,616
Debt Service	671,913
Unrestricted	<u>367,866</u>
Total Net Assets	<u><u>\$ 6,100,125</u></u>

The accompanying notes are an integral part of the financial statements.

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KNOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

KNOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

					Net (Expense)
					Revenues & Changes
					in Net Assets
		Program Revenues Received			
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 3,582,126	\$ 114,465	\$ 3,651,887	\$	\$ 184,226
Protection to Persons and Property	1,297,176			75,891	(1,221,285)
General Health and Sanitation	2,334,067			12,500	(2,321,567)
Social Services	399,013				(399,013)
Recreation and Culture	2,803,350	494,251			(2,309,099)
Roads	2,457,444			2,188,349	(269,095)
Interest on Long-term Debt	771,148		524,563		(246,585)
Capital Projects	78,772			3,603,997	3,525,225
Total Governmental Activities	13,723,096	608,716	4,176,450	5,880,737	(3,057,193)
Total Primary Government	\$ 13,723,096	\$ 608,716	\$ 4,176,450	\$ 5,880,737	(3,057,193)
General Revenues:					
Taxes:					
					492,011
					202,901
					103,048
					517,496
					264,201
					15,723
					279,623
					9,389
					1,884,392
					(1,172,801)
					7,272,926
					\$ 6,100,125

The accompanying notes are an integral part of the financial statements.

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KNOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

KNOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>LGEA Fund</u>	<u>State Grants Fund</u>	<u>Debt Service Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS							
Cash and Cash Equivalent	\$ 267,866	\$ 110,730	\$ 10,502	\$ 489,662	\$ 671,913	\$ 216,722	\$ 1,767,395
Due From Other Funds	100,000						100,000
Total Assets	<u>367,866</u>	<u>110,730</u>	<u>10,502</u>	<u>489,662</u>	<u>671,913</u>	<u>216,722</u>	<u>1,867,395</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Due To Other Funds			100,000				100,000
Total Liabilities			<u>100,000</u>				<u>100,000</u>

FUND BALANCES

Reserved for:							
Encumbrances	35,013	95,144	258,476	164,083		130,084	682,800
Unreserved:							
General Fund	332,853						332,853
Special Revenue Funds		15,586	(347,974)	325,579		86,638	79,829
Debt Service Fund					671,913		671,913
Total Fund Balances	<u>367,866</u>	<u>110,730</u>	<u>(89,498)</u>	<u>489,662</u>	<u>671,913</u>	<u>216,722</u>	<u>1,767,395</u>
Total Liabilities and Fund Balances	<u>\$ 367,866</u>	<u>\$ 110,730</u>	<u>\$ 10,502</u>	<u>\$ 489,662</u>	<u>\$ 671,913</u>	<u>\$ 216,722</u>	<u>\$ 1,867,395</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,767,395
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	31,017,357
Accumulated Depreciation	(11,536,734)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(150,662)
Bonds	<u>(14,997,231)</u>
Net Assets Of Governmental Activities	<u>\$ 6,100,125</u>

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KNOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

KNOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	General Fund	Road Fund	LGEA Fund	State Grants Fund	Debt Service Fund	Non- Major Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 1,188,121	\$	\$	\$	\$	\$ 127,335	\$ 1,315,456
In Lieu Tax Payments	15,723						15,723
Excess Fees	264,201						264,201
Intergovernmental	440,383	1,285,846	3,211,504	3,603,997	524,563	990,894	10,057,187
Charges for Services	114,465		86,949			407,302	608,716
Miscellaneous	175,730	14,707	35,664	23,187		30,335	279,623
Interest	1,165	3,110	771	2,632	67	1,644	9,389
Total Revenues	<u>2,199,788</u>	<u>1,303,663</u>	<u>3,334,888</u>	<u>3,629,816</u>	<u>524,630</u>	<u>1,557,510</u>	<u>12,550,295</u>
EXPENDITURES							
General Government	1,150,002		227,883	124,250			1,502,135
Protection to Persons and Property	2,206		208,501	288,826		468,990	968,523
General Health and Sanitation			200,494	2,133,573			2,334,067
Social Services	2,150		323,407	73,456			399,013
Recreation and Culture	3,506		969,708	537,882		748,962	2,260,058
Roads		785,286	868,398			347,340	2,001,024
Debt Service:							
Principal	11,904	134,035	21,923		555,000	88,276	811,138
Interest	231	71,791	1,207		639,439	58,480	771,148
Capital Projects		13,875	57,107	52,290			123,272
Administration	945,526	197,805	651,403			167,863	1,962,597
Total Expenditures	<u>2,115,525</u>	<u>1,202,792</u>	<u>3,530,031</u>	<u>3,210,277</u>	<u>1,194,439</u>	<u>1,879,911</u>	<u>13,132,975</u>
Excess (Deficiency) of Revenues Over							
Expenditures Before Other							
Financing Sources (Uses)	<u>84,263</u>	<u>100,871</u>	<u>(195,143)</u>	<u>419,539</u>	<u>(669,809)</u>	<u>(322,401)</u>	<u>(582,680)</u>
Other Financing Sources (Uses)							
Transfers From Other Funds	677,166	625,000	2,120,347	544	663,393	1,040,000	5,126,450
Transfers To Other Funds	<u>(775,000)</u>	<u>(777,166)</u>	<u>(2,170,000)</u>	<u>(683,393)</u>		<u>(720,891)</u>	<u>(5,126,450)</u>
Total Other Financing Sources (Uses)	<u>(97,834)</u>	<u>(152,166)</u>	<u>(49,653)</u>	<u>(682,849)</u>	<u>663,393</u>	<u>319,109</u>	
Net Change in Fund Balances	(13,571)	(51,295)	(244,796)	(263,310)	(6,416)	(3,292)	(582,680)
Fund Balances - Beginning	281,437	162,025	255,298	752,972	678,329	220,014	2,350,075
Fund Balances - Ending	<u>\$ 267,866</u>	<u>\$ 110,730</u>	<u>\$ 10,502</u>	<u>\$ 489,662</u>	<u>\$ 671,913</u>	<u>\$ 216,722</u>	<u>\$ 1,767,395</u>

The accompanying notes are an integral part of the financial statements.

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**KNOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

KNOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (582,680)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	1,057,504
Depreciation Expense	(2,346,342)

Some of the expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(112,421)
--	-----------

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligations Principal Payments	775,665
Bond Principal Payments	35,473
Change in Net Assets of Governmental Activities	\$ (1,172,801)

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Knott County, Kentucky include the funds, agencies, boards, and entities for which the Fiscal Court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the Fiscal Court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Knott County, Kentucky Justice Center Corporation - The Justice Center Corporation accounts for the activities of the Justice Center. The Justice Center Corporation issued debt to build facilities and additions of the justice center. The Justice Center Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. Administrative costs and the related debt are included in the Fiscal Court's financial statements although the Department for Local Government does not require the Fiscal Court to report or budget these funds.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Knott County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Knott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the Fiscal Court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Knott County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Fiscal Court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund – This fund primarily accounts for funds from County Road Aid and various licenses. These funds are used to maintain the roads throughout the county. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

LGEA Fund – The Local Government Economic Assistance fund primarily accounts for funds from Coal Severance and Mineral Severance Taxes. These funds are used to support public service and protection aspects of the government as well as environmental, social services and parks and recreation activities. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

State Grants Fund - The primary purpose of this fund is to account for the grants that are received from various state agencies earmarked for specific projects. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Debt Service Fund - The purpose of this fund contains the Youth Center general obligation bond issue and the Justice Center Corporation bond issue. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

The primary government also has the following non-major funds: Federal Grants Fund, Emergency Management Fund, Forestry Fund, Sports Complex Fund, Emergency 911 Fund and the Capital Projects Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State and Federal Grant Fund, Forestry Fund, Sports Complex Fund, Emergency Management Fund and the Emergency 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Capital Projects Fund is presented to account for the financial resources to be used for the acquisition or construction of major capital facilities.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of a county's enterprise funds are charges to customers for sales. Operating expenses for an enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The Knott County Fiscal Court does not have any proprietary funds at this time.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset (less salvage value on applicable assets).

	Capitalization Threshold	Useful Life (Years)
Buildings and Building Improvements	\$ 10,000	10-20
Vehicles and Equipment	\$ 10,000	5
Infrastructure	\$ 10,000	5-10

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent Fiscal Court's intended use of the resources and should reflect actual plans approved by the Fiscal Court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the Fiscal Court incurs no liability until performance has occurred on the part of the party with whom the Fiscal Court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose its will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations the Knott County Fiscal Court: Knott County Health District, Knott County Library District, Knott County Conservation District, and the Knott County Water District.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, Knott County is not involved in any known joint ventures.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Interfund Receivables, Payables, and Transfers

The individual funds borrow money from each other from time to time. An accounting of this activity is kept by the Treasurer and at the end of each year, is tallied and reflected in these financials as Due to Other Funds or due From Other Funds on the Statement of Revenues, Expenditures and Changes in Fund Balance. These balances are eliminated on the Statement of Net Assets. At June 30, 2010, the LGEA Fund owed the General Fund \$100,000.

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,054,505	\$	\$	\$ 1,054,505
Construction In Progress		44,500		44,500
Total Capital Assets Not Being Depreciated	1,054,505	44,500		1,099,005
Capital Assets, Being Depreciated:				
Buildings and Improvements	20,468,599			20,468,599
Vehicles and Equipment	1,684,881	233,376		1,918,257
Infrastructure	6,751,868	779,628		7,531,496
Total Capital Assets Being Depreciated	28,905,348	1,013,004		29,918,352
Less Accumulated Depreciation For:				
Buildings and Improvements	(4,617,949)	(1,001,395)		(5,619,344)
Vehicles and Equipment	(1,309,466)	(146,594)		(1,456,060)
Infrastructure	(3,262,977)	(1,198,353)		(4,461,330)
Total Accumulated Depreciation	(9,190,392)	(2,346,342)		(11,536,734)
Total Capital Assets, Being Depreciated, Net	19,714,956	(1,333,338)		18,381,618
Governmental Activities Capital Assets, Net	\$ 20,769,461	\$ (1,288,838)	\$	\$ 19,480,623

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 117,394
Protection to Persons and Property	328,653
Recreation and Culture	664,247
Roads, Including Depreciation of General Infrastructure Assets	<u>1,236,048</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 2,346,342</u></u>

Note 5. Long-term Debt

A. General Obligation Road Bonds, Series 2007

The Fiscal Court issued \$1,500,000 in obligations during 2007. The bonds are payable in semi-annual installments, principal and interest, beginning January 1, 2008, in the amount of \$98,522. Interest accrues at a rate of 7.25%. The Fiscal Court issued the bonds for various road projects. As of June 30, 2010, bonds outstanding were \$1,132,120. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 136,631	\$ 60,413
2012	144,249	52,795
2013	152,292	44,753
2014	160,783	36,261
2015	169,748	27,297
2016-2017	<u>368,417</u>	<u>25,672</u>
Totals	<u><u>\$ 1,132,120</u></u>	<u><u>\$ 247,191</u></u>

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

B. KADD Lease 2004E

The Fiscal Court incurred \$210,000 in a lease obligation during 2004 through the KADD lease acquisition program. The lease is payable in annual installments beginning October 20, 2004. Interest accrues at a variable rate between 2.50% - 4.25%. The Fiscal Court incurred the lease obligation for the jail remodeling project. As of June 30, 2010, the lease outstanding was \$35,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 35,000	\$ 2,032
Totals	<u>\$ 35,000</u>	<u>\$ 2,032</u>

C. Kentucky River Regional Jail Bonds, Series 2007

The Perry County Fiscal Court issued \$4,975,000 of general obligation refunding bonds to build the Kentucky River Regional Jail. The Knott County Fiscal Court began using this facility as it jail upon completion. To use the facility, the Knott County Fiscal Court is required to pay twenty-five percent (25%) of the amount of each principal and interest payment. Principal payments are due annually starting on December 1, 2008. Interest is payable semi-annually starting June 1, 2008. The Knott County Fiscal Court was initially responsible for \$1,243,750 in principal payments on the bonds. The Interest is calculated at a rate of 3.85%. As of June 30, 2010, the bonds outstanding were \$1,170,111. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 6,250	\$ 47,283
2012	16,250	46,080
2013	60,000	43,842
2014	60,000	41,532
2015	62,500	39,174
2016-2020	357,500	156,503
2021-2025	432,500	80,754
2026-2027	<u>175,111</u>	<u>24,953</u>
Totals	<u>\$ 1,170,111</u>	<u>\$ 480,121</u>

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

D. KADD Lease 2003 071M

The Fiscal Court incurred \$70,000 in a lease obligation during 2003 through the KADD lease acquisition program. The lease is payable in annual installments beginning October 20, 2003. Interest accrues at a variable rate between 2.10% - 3.85%. The Fiscal Court incurred the lease obligation to update the emergency E-911 paging system. During the year ended June 30, 2010, the lease outstanding was paid in full.

E. General Obligation Bonds, Series 2002 S/F

The Knott County Justice Center Corporation issued \$6,605,000 in obligations during 2002. The bonds are payable in annual installments with the interest payable in semi-annual installments, beginning October 1, 2002. Interest accrues at a rate of 4.78%. The Justice Center Corporation issued the bonds to fund the building of the Justice Center. As of June 30, 2010, bonds outstanding were \$4,725,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2011	\$ 295,000	\$ 218,669
2012	300,000	204,538
2013	300,000	190,287
2014	350,000	174,849
2015	320,000	158,937
2016-2020	1,835,000	545,775
2021-2023	1,325,000	97,560
Totals	<u>\$ 4,725,000</u>	<u>\$ 1,590,615</u>

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

F. General Obligation Improvement Bonds, Series 2002 S/F

The Fiscal Court issued \$8,450,000 in obligations during 2006. The bonds are payable in annual installments with the interest payable in semi-annual installments, beginning March 1, 2007. Interest accrues at a rate of 5.00%. The Fiscal Court issued the bonds to fund the building of the Youth and Recreation Center. As of June 30, 2010, bonds outstanding were \$7,935,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2011	\$ 280,000	\$ 389,750
2012	295,000	375,375
2013	310,000	360,250
2014	325,000	344,375
2015	340,000	327,750
2016-2020	1,980,000	1,358,340
2021-2025	2,545,000	795,625
2026-2028	1,860,000	142,500
Totals	<u>\$ 7,935,000</u>	<u>\$ 4,093,965</u>

G. Other Obligations

1) The Fiscal Court has an outstanding obligation to Fern Taylor. Ms. Taylor's husband died while on the job as a Deputy Sheriff. At the time, the Fiscal Court agreed to pay Ms. Taylor \$122 bi-weekly until her death. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 3,172	\$
2012	3,172	
2013	3,172	
2014	3,172	
2015	3,172	
2016-2019	9,516	
Totals	<u>\$ 25,376</u>	<u>\$</u>

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Long-term Debt (Continued)

G. Other Obligations (Continued)

2) The Fiscal Court has a lease with Hyden Citizens Bank for a grader. Monthly payments are required in the amount of \$2,195 including interest. The lease matures on 2/10/2015. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 21,670	\$ 4,672
2012	22,700	3,642
2013	23,778	2,564
2014	24,908	1,434
2015	17,259	302
Totals	<u>\$ 110,315</u>	<u>\$ 12,614</u>

4) The Fiscal Court has a lease with Leasing One Corporation for a grader. Monthly payments are required in the amount of \$1,035 including interest. The lease matures on 10/1/2011. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 11,896	\$ 521
2012	3,075	28
Totals	<u>\$ 14,971</u>	<u>\$ 549</u>

H. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 15,772,896	\$	\$ (775,665)	\$14,997,231	\$ 752,881
Financing Obligations	73,714	112,421	(35,473)	150,662	36,738
Governmental Activities					
Long-term Liabilities	<u>\$ 15,846,610</u>	<u>\$ 112,421</u>	<u>\$ (811,138)</u>	<u>\$15,147,893</u>	<u>\$ 789,619</u>

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 6. Interest On Long-term Debt and Financing Obligations

Interest on long-term debt on the Statement of Activities includes \$2,203 in interest on financing obligations (notes and equipment leases) and \$768,945 in interest on bonds and KADD leases.

Note 7. Employee Retirement System

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.15 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent.

The county's contribution for FY 2008 was \$377,953, FY 2009 was \$334,026, and FY 2010 was \$350,484.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 8. Deferred Compensation

The Knott County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2010, the Knott County Fiscal Court was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Subsequent Events

The County has evaluated and considered the need to recognize or disclose subsequent events through February 21, 2011, which represents the date these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2010, have not been evaluated by the County.

Note 11. Related Party Transactions

Judge Thompson is the president of The Knott County Youth Foundation. The Foundation leases the land on which the sports complex resides. The Fiscal Court in turn, is leasing the land from the Foundation for an amount of \$0 per year. Additionally, the Fiscal Court entered into a second lease for more land adjacent to the sports complex during the year ended December 31, 2010. This lease calls for payments of \$100 per year for the 100 year term.

The Fiscal Court uses a sign company from time to time to manufacture advertising sign in the Sportsplex. This sign company is owned by the Judge's sister. The Fiscal Court paid this company \$4,801 for signs during the year ended June 30, 2010.

The Sportsplex employs two of the Judge's family members on a part-time seasonal basis. Individual payments for wages were \$4,436 and \$4,565 totaling \$9,001.

The Fiscal Court paid \$8,924 during the year ended June 30, 2010, as tool rental expense to one of its road department mechanics.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 11. Related Party Transactions (Continued)

In July 2009, the County purchased a vehicle from one of the Magistrates for \$3,500. Under the County's Small Purchase Policy, they are not required to take bids on such a purchase.

The County provided funding for a local all-star basketball team to travel to Florida for a tournament. The cost for this trip was approximately \$1,500. The Judge's son plays for this team.

Note 12. Prior Period Adjustment

The beginning net asset amount on the Statement of Activities has been restated by \$250,000 for a land purchase that was inadvertently expensed in the prior period. The beginning land balance in Note 4 has also been increased to reflect this adjustment.

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KNOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

KNOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,035,800	\$ 1,246,667	\$ 1,188,121	\$ (58,546)
In Lieu Tax Payments	5,000	5,000	15,723	10,723
Excess Fees	-	124,550	264,201	139,651
Intergovernmental Revenue	289,330	414,025	440,383	26,358
Charges for Services	125,000	125,000	114,465	(10,535)
Miscellaneous	101,000	101,000	175,730	74,730
Interest	5,000	5,000	1,165	(3,835)
Total Revenues	<u>1,561,130</u>	<u>2,021,242</u>	<u>2,199,788</u>	<u>178,546</u>
EXPENDITURES				
General Government	1,036,242	1,258,620	1,150,002	108,618
Protection to Persons and Property	2,300	2,300	2,206	94
Social Services	6,000	6,000	2,150	3,850
Recreation and Culture		3,600	3,506	94
Debt Service	11,672	12,407	12,135	272
Administration	957,082	1,171,917	945,526	226,391
Total Expenditures	<u>2,013,296</u>	<u>2,454,844</u>	<u>2,115,525</u>	<u>339,319</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(452,166)</u>	<u>(433,602)</u>	<u>84,263</u>	<u>517,865</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	152,166	152,166	677,166	525,000
Transfers To Other Funds			(775,000)	(775,000)
Total Other Financing Sources (Uses)	<u>152,166</u>	<u>152,166</u>	<u>(97,834)</u>	<u>(250,000)</u>
Net Changes in Fund Balance	(300,000)	(281,436)	(13,571)	267,865
Fund Balance - Beginning	<u>300,000</u>	<u>281,436</u>	<u>281,437</u>	<u>1</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 267,866</u>	<u>\$ 267,866</u>

KNOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,099,804	\$ 1,280,643	\$ 1,285,846	\$ 5,203
Miscellaneous	1,000	1,000	14,707	13,707
Interest	5,000	5,000	3,110	(1,890)
Total Revenues	1,105,804	1,286,643	1,303,663	17,020
EXPENDITURES				
Roads	499,000	813,014	785,286	27,728
Debt Service	202,000	215,000	205,826	9,174
Capital Projects		15,000	13,875	1,125
Administration	352,638	253,488	197,805	55,683
Total Expenditures	1,053,638	1,296,502	1,202,792	93,710
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	52,166	(9,859)	100,871	110,730
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			625,000	625,000
Transfers To Other Funds	(152,166)	(152,166)	(777,166)	(625,000)
Total Other Financing Sources (Uses)	(152,166)	(152,166)	(152,166)	
Net Changes in Fund Balance	(100,000)	(162,025)	(51,295)	110,730
Fund Balance - Beginning	100,000	162,025	162,025	
Fund Balance - Ending	\$	\$	\$ 110,730	\$ 110,730

KNOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 4,300,000	\$ 4,300,000	\$ 3,211,504	\$ (1,088,496)
Charges for Services	30,000	30,000	86,949	56,949
Miscellaneous	11,000	11,000	35,664	24,664
Interest	5,000	5,000	771	(4,229)
Total Revenues	4,346,000	4,346,000	3,334,888	(1,011,112)
EXPENDITURES				
General Government	136,500	232,000	227,883	4,117
Protection to Persons and Property	262,301	232,501	208,501	24,000
General Health and Sanitation	201,300	236,710	200,494	36,216
Social Services	355,500	370,010	323,407	46,603
Recreation and Culture	926,500	1,101,960	969,708	132,252
Roads	662,000	911,630	868,398	43,232
Debt Service	27,500	27,500	23,130	4,370
Capital Projects	80,000	80,000	57,107	22,893
Administration	894,399	848,988	651,403	197,585
Total Expenditures	3,546,000	4,041,299	3,530,031	511,268
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	800,000	304,701	(195,143)	(499,844)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			2,120,347	2,120,347
Transfers To Other Funds	(1,000,000)	(1,000,000)	(2,170,000)	(1,170,000)
Total Other Financing Sources (Uses)	(1,000,000)	(1,000,000)	(49,653)	950,347
Net Changes in Fund Balances	(200,000)	(695,299)	(244,796)	450,503
Fund Balances - Beginning	200,000	255,298	255,298	
Fund Balances - Ending	\$	\$ (440,001)	\$ 10,502	\$ 450,503

KNOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

STATE GRANTS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 4,000,000	\$ 4,000,000	\$ 3,603,997	\$ (396,003)
Miscellaneous			23,187	23,187
Interest	10,000	10,000	2,632	(7,368)
Total Revenues	4,010,000	4,010,000	3,629,816	(380,184)
EXPENDITURES				
General Government		124,250	124,250	
Protection to Persons and Property	250,000	380,900	288,826	92,074
General Health and Sanitation	600,000	2,351,450	2,133,573	217,877
Social Services	25,000	74,000	73,456	544
Recreation and Culture	300,000	604,500	537,882	66,618
Capital Projects	1,100,000	290,000	52,290	237,710
Administration	1,335,000	237,872		237,872
Total Expenditures	3,610,000	4,062,972	3,210,277	852,695
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	400,000	(52,972)	419,539	472,511
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			544	544
Transfers To Other Funds	(700,000)	(700,000)	(683,393)	16,607
Total Other Financing Sources (Uses)	(700,000)	(700,000)	(682,849)	17,151
Net Changes in Fund Balance	(300,000)	(752,972)	(263,310)	489,662
Fund Balance - Beginning	300,000	752,972	752,972	
Fund Balance - Ending	\$	\$	\$ 489,662	\$ 489,662

KNOTT COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**KNOTT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2010

KNOTT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

	Jail Fund	Federal Grants Fund	Emergency Management Fund	Forestry Fund	Sports Complex	Emergency E-911 Fund	Total Non-Major Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 21,908	\$ 12,738	\$ 77,631	\$ 6,084	\$ 9,998	\$ 88,363	\$ 216,722
Total Assets	<u>21,908</u>	<u>12,738</u>	<u>77,631</u>	<u>6,084</u>	<u>9,998</u>	<u>88,363</u>	<u>216,722</u>
FUND BALANCES							
Unreserved:							
Special Revenue Funds	<u>21,908</u>	<u>12,738</u>	<u>77,631</u>	<u>6,084</u>	<u>9,998</u>	<u>88,363</u>	<u>216,722</u>
Total Fund Balances	<u>\$ 21,908</u>	<u>\$ 12,738</u>	<u>\$ 77,631</u>	<u>\$ 6,084</u>	<u>\$ 9,998</u>	<u>\$ 88,363</u>	<u>\$ 216,722</u>

The accompanying notes are an integral part of the financial statements.

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KNOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

KNOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	Jail Fund	Federal Grants Fund	Emergency Management Fund	Forestry Fund	Sports Complex	Emergency E-911 Fund	Total Non-Major Governmental Funds
REVENUES							
Taxes	\$	\$	\$	\$ 3,739	\$	\$ 123,596	\$ 127,335
Intergovernmental	75,891	12,500	902,503				990,894
Charges for Service					407,302		407,302
Miscellaneous	365				29,970		30,335
Interest	331	2	730	35	103	443	1,644
Total Revenues	<u>76,587</u>	<u>12,502</u>	<u>903,233</u>	<u>3,774</u>	<u>437,375</u>	<u>124,039</u>	<u>1,557,510</u>
EXPENDITURES							
Protection to Persons and Property	381,686			2,118		85,186	468,990
General Health and Sanitation							
Recreation and Culture					748,962		748,962
Roads			347,340				347,340
Debt Service	139,267					7,489	146,756
Administration	75,253				83,067	9,543	167,863
Total Expenditures	<u>596,206</u>	<u></u>	<u>347,340</u>	<u>2,118</u>	<u>832,029</u>	<u>102,218</u>	<u>1,879,911</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(519,619)</u>	<u>12,502</u>	<u>555,893</u>	<u>1,656</u>	<u>(394,654)</u>	<u>21,821</u>	<u>(322,401)</u>
Other Financing Sources (Uses)							
Transfers From Other Funds	445,000		200,000		375,000	20,000	1,040,000
Transfers To Other Funds		(544)	(720,347)				(720,891)
Total Other Financing Sources (Uses)	<u>445,000</u>	<u>(544)</u>	<u>(520,347)</u>	<u></u>	<u>375,000</u>	<u>20,000</u>	<u>319,109</u>
Net Change in Fund Balances	(74,619)	11,958	35,546	1,656	(19,654)	41,821	(3,292)
Fund Balances - Beginning	96,527	780	42,085	4,428	29,652	46,542	220,014
Fund Balances - Ending	<u>\$ 21,908</u>	<u>\$ 12,738</u>	<u>\$ 77,631</u>	<u>\$ 6,084</u>	<u>\$ 9,998</u>	<u>\$ 88,363</u>	<u>\$ 216,722</u>

The accompanying notes are an integral part of the financial statements.

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KNOTT COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

KNOTT COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2010

Federal Grantor			
Program Title	Federal	Pass-Through	
<u>Grant Name</u>	<u>CFDA #</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Direct Award			
ARRA - Emergency Watershed Program	10.923	68-5C16-9-103	\$ 20,244
<u>U.S. Department of Health and Human Services</u>			
Passed Through State Cabinet for Health and Family Services			
Department for Aging and Independent Living			
Passed Through Kentucky River Area Development District			
Title III B	93.044		17,109
Title III C1	93.045		26,828
Title III C2	93.045		15,432
NSIP	93.053		25,662
ARRA HD Meals	93.705		4,096
ARRA CG Meals	93.707		1,472
Cluster Total			90,599
Title III D	93.043		2,067
Total HHS			92,666
<u>U.S. Department of Homeland Security</u>			
Passed Through Kentucky Department of Military Affairs			
Disaster Grant - Public Assistance	97.036	DR1841	434,412
Federal DES/EMA Reimbursements	97.036	C060 04A	1,237
Federal DES/EMA Reimbursements	97.036	C060 02A	11,802
Federal DES/EMA Reimbursements	97.036		291
Total Homeland Security			447,742 *
Total Cash Expenditures of Federal Awards			\$ 560,652

* Denotes Major Program

KNOTT COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2010

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knott County, Kentucky and is presented on a modified cash basis of accounting. Expenditures have been made in prior periods that were reimbursed during FY 2010. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Randy Thompson, Knott County Judge/Executive
Members of the Knott County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Knott County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 21, 2011. Knott County, Kentucky presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Knott County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Knott County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Knott County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2010-3 to be a material weakness.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knott County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2010-1 through 2010-5.

The Knott Judge/Executive's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
February 21, 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

Stephen R. Allen, CPA/PFS
Dennis H. England, CPA
Michael D. Foley, CPA
Lyman Hager, Jr., CPA
Jerry W. Hensley, CPA

J. Carroll Luby, CPA

The Honorable Randy Thompson, Knott County Judge/Executive
Members of the Knott County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Knott County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Knott County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Knott County's management. Our responsibility is to express an opinion on Knott County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Knott County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Knott County's compliance with those requirements.

In our opinion, Knott County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Knott County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Knott County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

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Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Department for Local Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
February 21, 2011

KNOTT COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2010

**KNOTT COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses unqualified opinions on the governmental activities, each major fund, and the aggregate remaining fund information of Knott County.
2. One significant deficiency relating to the audit of the financial statements is reported in the Independent Auditor's Report. The significant deficiency is considered a material weakness.
3. Five instances of noncompliance material to the financial statements of Knott County were disclosed during the audit. See the following findings 2010-1 through 2010-5.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Knott County expresses an unqualified opinion.
6. There are no findings relative to the major federal awards programs for Knott County reported in Part C of this schedule.
7. The program tested as a major program was: FEMA – Public Assistance Grants (CFDA # 97.036)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Knott County was determined not to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2010-1 The Fiscal Court Failed To Comply With State Laws And Regulations

The Fiscal Court did not follow the guidelines set forth in the instructional guide and policy manual issued by the State Local Finance Officer and applicable Kentucky Revised Statutes. Specifically, the following non-compliances were noted:

1. The Fiscal Court did not pay certain invoices within thirty (30) days as required. Instances were noted in which payment to vendors occurred more than 30 days after the county received the invoice(s). In addition, the statutory 1% interest penalty was not paid to vendors for each month payments exceeded thirty (30) days. Approximately 4% of the invoices in the test sample were not paid within the statutory time frame.
2. The Fiscal Court does not have a written investment policy. They are required to follow KRS 66.480 but have not officially adopted it.
3. The Fiscal Court did not update the administrative code. KRS 68.005(2) states, "The fiscal court shall review the county administrative code annually and, during the month of June, may by a two-thirds majority of the entire fiscal court amend the county administrative code at that time".
4. The Fiscal Court did not use its purchase order system in the manner prescribed in its Administrative Code section 410.6.

KNOTT COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2010
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2010-1 The Fiscal Court Failed To Comply With State Laws And Regulations (Continued)

We recommend the county review, utilize, and adhere to all applicable laws and regulations. Specifically, we recommend the county take the following action to comply with the Department for Local Government requirements and Kentucky Revised Statutes included within:

1. Ensure expenditures occur within thirty (30) days of receiving vendor invoices or compensate vendors according to statutory interest penalties for payments exceeding thirty (30) days.
2. Adopt a written investment policy.
3. Review administrative code annually in June and adopt via resolution, perhaps when the Court approves the upcoming budget for the year.
4. The County should use purchase orders for all expenditures unless not required under bid contracts.

County Judge/Executive Randy Thompson's Response: The County will attempt to comply to the best of its ability.

2010-2 Knott County Fiscal Court Did Not Follow Competitive Bidding Requirements

The Fiscal Court did not retain adequate bid documents to substantiate the bid process. According to the county's Administrative Code, the county has adopted, in its entirety, KRS Chapter 45A, the Kentucky "Model Procurement Code" (KMPC). According to KMPC, the county, as a local public agency, may dispense with the requirement of competitive bidding and contract purchase through noncompetitive negotiation only when 1) a written determination is made that competition is not feasible and 2) it is determined, in writing, by a designee of the county that an emergency exists which will cause public harm as a result of the delay in competitive procedures. We found neither any written determination that competition was not feasible, nor that an emergency was declared to exist. Thus, the county did not comply with the KMPC in the payment of these expenditures. Competitive bidding ensures that the county procures materials and service contracts at the best price available. By limiting competition, the county may not get the benefits of the best price available.

We recommend the county review and adhere to applicable laws relating to procurement.

County Judge/Executive Randy Thompson's Response: The Knott Fiscal Court does advertise for competitive bids on all projects over \$20,000.00. The court tries to bid for services such a fuel, gravel, asphalt etc. every year.

Auditor's Reply: Auditors found 31 transactions where either bids were not obtained or adequate documentation was not maintained to substantiate the bid process.

KNOTT COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2010
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2010-3 Knott County Fiscal Court Lacks Controls Over Personnel Documentation

Several deficiencies were noted in the internal control structure as it relates to payroll, namely, in the documentation, preparation, and presentation of payroll items. The following issues were noted during payroll testing and need to be addressed by the fiscal court:

1. Time sheets tested did not contain proper supervisor signatures or proper employee signatures. Timesheets did not contain a week ending date to substantiate a valid time sheet for the weeks tested. Also, timesheets do not track actual daily hours worked by employees.
2. Several employee files were missing W-4, K-4 or I-9 information.
3. Treasurer holds full-time employment at a local bank as well as full-time employment for the county. The time sheets did not contain enough information to determine if the treasurer maintained a regular schedule.

The county's administrative code in 330.4 defines a full-time employee as "an employee who works at least forty (40) hours per week on a regularly scheduled basis. KRS 337.320 requires that employers "keep a record of the hours worked each day and week by each employee". Timesheets are also necessary to document eligibility for employee benefits such as retirement. Good internal controls dictate that all employees, except those statutorily exempt from this requirement, maintain and submit time sheets for payroll processing. To further strengthen internal controls, the time sheets should be signed by the employee and by the employee's immediate supervisor for verification and attestation of the accuracy of time reported. Lack of proper internal controls for payroll increases the risk that incorrect payroll information will be processed by the county and that these errors will not be identified and corrected.

We recommend that the county implement the following internal control procedures to ensure the proper documentation, preparation, calculation and presentation of payroll related items:

1. The county should require all employees to maintain and submit time sheets with daily detail, except those statutorily exempt. Furthermore, the county should require employees and their immediate supervisors to sign all timesheets.
2. The county should ensure that all documentation is in each employee's file (W-4, K-4 and I-9) for every employee.

County Judge/Executive Randy Thompson's Response: Will attempt to comply, we are a small county with a small multi-tasking staff, sometimes things accidentally get over-looked, however, we will correct these issues for FY 2011.

KNOTT COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2010
(Continued)

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2010-4 The County Did Not Maintain Proper Documentation Totalling \$9,000 For An Independent Contractor

During our testing of payroll, we noted one independent contractor retained by the county to provide services, has a written agreement with the county for the scope of the services to be performed, however, the details of the service are vague and documentation required for the submission of invoices for payment is little or none. The contractor, a corporation, was paid \$9,000. The contractor was approved by the fiscal court to be paid a monthly amount.

In order for this contractor to be paid, an invoice detailing the services provided on a monthly basis should be maintained and monitored to ensure the safeguarding of assets. Supporting documentation should be maintained with the invoices for time and expenses incurred for the services provided. We recommend the fiscal court require the submission of supporting documentation as indicated within the county's administrative code for services performed in order to minimize any loss of assets.

County Judge/Executive Randy Thompson's Response: This contractor no longer provides services to the County.

2010-5 Fiscal Court Paid Late Fees On Credit Card Payments

During the course of our testing, we noted that many invoices were paid past the due date, especially for the Knott County Fiscal Court and Human Services Center. Payments for credit cards used by the employees included \$711 in late fees.

We recommend that the fiscal court implement procedures to ensure the credit cards are paid in full, on-time, every month.

County Judge/Executive Randy Thompson's Response: Will try to pay timely, sometimes bills arrive day after court meeting.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

2005-14 Knott County Fiscal Court Did Not Earmark \$49,223 Of Federal Receipts Or Provide \$11,180 In Matching Funds For Federal Expenditures

Resolution: The County has not corrected.

2005-20 County Records Show That During The Fiscal Year, \$25,945 Was Paid From The 2001 Flood Account For Ineligible Work

Resolution: The County has not pursued recovery of these funds erroneously paid to the vendor.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

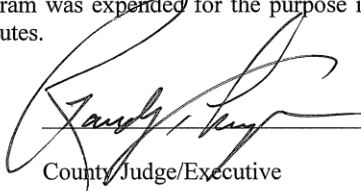
KNOTT COUNTY FISCAL COURT


**For The Fiscal Year Ended
June 30, 2010**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
KNOTT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Knott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive

County Treasurer

